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## THE DISASTROUS RESULTS, IN ITALY, OF STATE RAILWAY BUILDING

In 1868 the Italian government began the purchase of railways from existing railway companies; and in 1877 it launched out upon the building of railways. In the last mentioned year, when the railway mileage, state and private, was 5,125 miles, the minister of public works, Signor Depretis, introduced into parliament a bill proposing the building of twenty-seven railway lines, aggregating 1,235 miles in length, and estimated to cost \$103,000 a mile, or \$127,000,000 in the aggregate. Shortly afterward the government in which Signor Depretis was minister of public works was displaced. Signor Baccarini, the new minister of public works, brought in a bill proposing thirty-eight lines of railway, aggregating 2,255 miles, and estimated to cost \$75,000 a mile, or \$168,500,000. Signor Baccarini, fearing to stagger Parliament, or at least the public, by log-rolling through Parliament a railway bill on the basis of an estimate of cost of \$103,000 a mile, reduced his estimate to the arbitrary sum of \$74,700.

The parliamentary committee to which was referred Signor Baccarini's bill reported in favor of building fifty-two railway lines aggregating 2,760 miles, and estimated to cost \$73,800 a mile. The government after canvassing Parliament, revised its measure, and proposed to build fifty-eight lines of railway, aggregating 3,430 miles, and estimated to cost \$72,900 a mile. But the government subsequently found that it had miscalculated the amount of log-rolling that would be required to pass its bill, and so it raised the number of railway lines to sixty-four, aggregating 3,762 miles, and estimated to cost \$64,300 a mile.

The act of July 29, 1879, authorized the state to build 3,762 miles of railway, at an aggregate cost of \$242,000,000. The lines were to be completed by 1900. A part of the cost of the lines—\$24,000,000—was to be contributed by the local governing bodies whose territory was to be served. It was intended that the state's

expenditure should begin with \$5,500,000 a year, and should rise successively to \$10,900,000 a year, and \$12,000,000 a year.

The railway construction proposals had been increased so rapidly from twenty-seven lines, aggregating 1,235 miles, in 1877, to sixty-four lines, aggregating 3,762 miles, in 1879, that there had been no time to prepare estimates of cost based on adequate surveys and specifications. In some cases, indeed, the government submitted to Parliament estimates of cost prepared by engineers who had not set foot in the country to be traversed by the proposed railways.

After the act of July 29, 1879, had been enacted, the pressure brought to bear by members of Parliament was such that the government was obliged to let contracts for railways on surveys and specifications that were entirely inadequate. Contractors were ready to undertake contracts on such terms, and at ridiculously low prices, knowing that they would have abundant opportunities to cover their losses and make large profits by charging the government fancy prices for work not specified in the contracts. For example, in 1879 and 1880, contracts were let for some 927 miles at \$50,300 a mile. But by June, 1883, the charges for work not specified in those contracts, had raised the cost of the 927 miles \$115,200 a mile.

The government was so weak—so “visibly helpless,” to use a phrase coined by the late Marquis of Salisbury—and the popular demand for railways was so strong, that the government had to pretend to believe that the low figures at which contracts were being let covered the whole cost of the railways. The result was the development of a public opinion to the effect that the 3,762 miles authorized by the act of July 29, 1879, would not cost \$64,300 a mile; and that the state might therefore proceed much more rapidly with construction than had been proposed in 1879. Accordingly, the amendment act of July 5, 1882, changed the date for the completion of the 3,762 miles from the year 1900 to the year 1894. That act also removed even the weak precautions taken in 1879 to secure in some measure the postponement to the last of the construction of the least promising lines. It went so far as to authorize Parliament to begin with the building of the

tail end of a railway line, or with the middle portion, so that very soon there were building many short stretches of railway which lacked all connection with the main lines.

The upshot of the practice of letting contracts for railways in the manner just described was that by 1885 it was realized that the state would be called upon to raise annually, not the \$12,000,000 anticipated in 1879, but two, three, and four times that sum.

By 1885 the resources of the state were so completely exhausted that the government was unable any longer properly to maintain the roadbed and the rolling-stock of those railways which it was itself operating. The government realized that, unless it should succeed in leasing the state railways to someone who could maintain them, the state railways would break down. A royal commission reported that it would take \$41,695,000 to put roadbed and rolling-stock in good repair.

A further consideration inducing the government to decide upon leasing the state railways was that such leasing would give the government the chance to sell its rolling-stock to the lessee. Such were the financial straits of the government of Italy that the chance to raise \$53,000,000 by selling the rolling-stock of the state railways was an important factor in inducing the government to conclude to abandon the experiment of operating a part of the railways which the state had purchased and built in 1868 to 1885.<sup>1</sup>

By the act of April 27, 1885, the government leased all of the state railways to companies, on terms that proved exceedingly burdensome to the taxpayers of Italy, though not unduly favorable to the companies; the fact being that some of the lines authorized in 1879 are not yet earning operating expenses, to say nothing of the interest on the capital invested.

On July 20, 1888, Parliament passed an act under which the lessees of the state railways agreed to aid in completing the building of the lines authorized in 1879. The act assumed that the cost of the lines of 1879 would average \$128,300 a mile. Signor

<sup>1</sup>At the close of 1884 the state was operating 3,542 miles, while companies were operating 2,750 miles.

Depretis' estimate, it will be remembered, in 1877 had been \$127,000 a mile.

In the twelve years 1890 to 1901 the railways of Italy earned on an average \$14,345,000 a year above operating expenses. That sum was equivalent to an average return of 1.456 per cent. on the average annual sum invested in the railways, namely, \$985,400,000.

Sixty-seven per cent. of the capital that was invested in the railways in the period from 1890 to 1901 had been contributed by the state, and had been raised by the sale of bonds which pay, nominally, 4 per cent. in interest, but had been sold at such discounts as to pay interest at the rate of not less than 4.5 per cent. The remaining 33 per cent., or \$324,200,000, had been contributed by the lessee companies. But under the terms upon which the companies had leased the railways owned by the state, and had aided in completing the building of the lines authorized in 1879, the state had been obliged, in the period from 1890 to 1901, to turn over to the lessee companies not only the whole of the net earnings on the whole of the railways—an average annual sum of \$14,345,000—but also an additional average annual sum of \$1,488,400. Throughout the period 1890 to 1901, therefore, the state not only received no interest on its average investment of \$661,200,000, but in addition was obliged to pay the lessee companies \$1,488,400 a year. Since the state's average investment of \$661,200,000 called for \$29,754,000 a year in interest, to be paid to the holders of the state's bonds, the total loss to the state each year averaged \$29,754,000 plus \$1,488,400, or \$31,242,400. That loss constituted an annual burden upon the taxpayers of Italy. And the prospect is that that burden will increase, rather than diminish, under the recent resumption of operation of the railways by the state.

The experience of Italy with state railway building has been a repetition of the experience of France, of Russia, of the Australasian colonies; in fact, of every important country, except Prussia, that has entered upon the building of railways by the state. Under the building of railways by the state, the burden of misdi-

rected investments, due to errors of judgment or to the bribing of constituencies by log-rolling, falls upon the taxpayers. Therein lies the great disadvantage of railway construction by the state, as compared with railway building by private enterprise, or companies. Misdirected investments, and premature investments, are bound to be made, whether the railways be built by the state or by companies. But under building by the state the burden of those errors falls on the taxpayers; whereas, under building by companies, it falls upon the stockholders of the companies, and upon the bondholders of the companies.

Had private companies in Italy, in the years 1879 to 1885, committed the mistakes—or folly—committed by the Italian state, the succeeding years would have witnessed wholesale bankruptcy. The railway properties would have changed hands, but they would have come out reorganized, with their capital scaled down to some approach to their earning power. But such relief is not available to governments—which cannot go into receivers' hands.

Australasian experience affords a striking illustration of this difference between state industrial activity and private industrial activity. In 1890 the mining, pastoral, mercantile, real-estate, and banking companies of Australasia were indebted to Great Britain to the extent of some \$575,000,000, borrowed on the promise to pay annually from 5 to 6 per cent. interest. With the crash of 1892 these companies went wholesale into the bankruptcy courts. In 1897 they had emerged with their indebtedness scaled down to some \$425,000,000, on which they were paying, in 1897, about 3.53 per cent. interest.

In 1897 the several Australasian governments had borrowed in Great Britain some \$1,075,000,000, agreeing to pay annually 4.08 per cent. The errors of judgment committed in investing that sum in all probability were no less than the errors of judgment committed by the aforesaid private companies. But to this day the Australasian taxpayers are paying 4.08 per cent. a year on several hundred millions invested in such way as to yield little or no return.

The foregoing considerations are of such importance as not only to warrant, but even to demand, further elaboration.

With the exception of Spain, Italy is the most heavily taxed country in the world. In Italy the necessities of the state are such that even the workingman who drinks no wine, and thus escapes one heavy tax, probably pays from 20 to 25 per cent. of his income in taxation. A distinguished publicist, Signor Nitti, who is at the same time professor of the science of finance at the University of Naples, even holds that the Italian workman pays about one-third of his income in taxation.

Among the Italian taxes are some that throw a frightful burden upon the workingman and the poorest of the peasants. Those taxes are the salt taxes, the state "octrois" (taxes imposed on the necessities of life while in the hands of the retail dealers), the tax on buildings, and the tax on agricultural land. They yield, on an average, respectively, \$14,000,000, \$11,000,000, \$17,000,000, and \$21,000,000 a year. If the Italian railway policy did not compel the government to raise by taxation annually some \$31,000,000 for the purpose of paying interest not earned by the railways, the government could sweep away the salt tax and the "octrois," and still have \$6,000,000 to the good, which it could use for the purpose of removing in part the taxes on buildings and on agricultural land.

In this connection it must be remembered that the practice of bribing constituencies by giving them railways carried with it, of necessity, the practice of bribing constituencies by extravagant expenditure upon roads, bridges, river and harbor improvements, and so forth. To districts to which cannot be given a railway must be given roads, bridges, lighthouses, or river or harbor improvements. In that respect, again, the experience of Italy has been but the repetition of the experience of all democratic countries that have entered upon the building of railways by the state, notably the Australasian colonies. At the present moment not less than \$315,000,000 of the Italian debt, calling for \$12,600,000 in interest a year, represents past expenditures upon roads, bridges, river and harbor improvements, and so forth. One may

assume that one-third of that expenditure, calling for \$4,000,000 a year in interest, represents the waste incident to log-rolling. That \$4,000,000, when added to the \$6,000,000, just described as to the good after abolishing the salt tax and the "octrois," makes \$10,000,000, or 25 per cent. of the proceeds of the taxes on buildings and agricultural lands. If it be assumed, with Mr. Bolton King, a writer of authority upon Italian conditions, that 50 per cent. of the building tax and agricultural land tax falls upon the workingman and the peasant, it will be seen that the \$10,000,000 in question would enable the state to remove one-half of the burden thrown upon the workingman and the peasant by the taxes in question. To sum up, were it not for the burdens imposed upon the state by past log-rolling in the building of railways and other public works, the Italian workman and peasant could be relieved of the frightful burdens put upon them by the salt tax, the state's "octrois," and of one-half of the burden put upon them by the building tax and the agricultural land tax.

The salt tax, collected by means of a state monopoly of the production of salt, is equal to 700 per cent. of the cost of producing salt. It keeps the consumption of salt in Italy at about 13 pounds per inhabitant, as against 29 pounds in Austria—a country little richer than Italy. The under-consumption of salt in connection with the over-consumption of Indian corn, made up into *pollenta*, is one cause of the prevalence of *pellogra* among the poorer working classes and peasants. The government has soldiers patrol the seashore, in order to prevent people from fetching salt water for the purpose of obtaining salt by evaporation.

The state "octrois" everyone admits to be burdensome to the extreme. In conjunction with the customs duties, they raise the prices of many of the necessities of life to points reached in no civilized country but Italy.

The tax on buildings, says Signor Nitti, is higher absolutely than it is in any other country in Europe. Moreover, it falls with greatest weight upon the dwellers in the congested districts of the cities and towns.

The land tax extends to the smallest properties, in a country in which the income of the small farmer—a class much above the peasant—seldom exceeds \$130 a year.



In 1902-3 the state-railway policy of Italy imposed upon the people of Italy a tax burden of \$40,000,000. Had it not been for that burden, the state would have been able to remit the whole of the "octrois" taxes—\$10,000,000, the whole of the "salt monopoly" tax—\$15,000,000, and 37.5 per cent. of the proceeds of the taxes on land and on buildings—or \$15,000,000 out of \$40,000,000.

Such are the consequences to the people of Italy of the state policy of purchasing and building railways in 1868 to 1885. I have not followed the parliamentary debates preceding the enactment of the recent act under which the Italian state once more has entered upon the policy of operating and building the railways. Yet I venture to say that considerations such as those just put before the reader were put neither before the Italian Parliament nor before the Italian people; unless, indeed, they were so put by an occasional individual who had no hope of gaining any following, but was impelled by conscience to utter a warning that he knew was futile and could only bring down upon him unpopularity and abuse. One of the most striking, as well as one of the saddest, things about public intervention in the field of industrial activity is that, no matter how disastrously such intervention works, the public does not become aware of the disaster.

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